Twitter Thread by [redacted]

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stoploss & slippages : a thread to understand how to avoid big slippage when you get stopped out #Qunat #AlgoTradeing #Nifty #stoploss (p.s. this is just an effort to educate & example is for illustration only.) hope this helps.



1. NSE maintains two orderbooks one which has all the bid & ask offers till its full depth 2. is stoploss orderbook which is not available for anyone to lookup unlike the 1st one.
you can place two type of stoploss orders one is SL-Market & SL-limit

These SL orders gets recored in SL-Orderbook in 1st come 1st basis for that mentioned trigger price
ex. 1) 9:20 -> SL order trigger at 100 qty 500
2) 9:45 -> SL order with trigger at 100 qty 500
3) 11:30 -> SL order with trigger at 100.5 qty 500



Now when price is dropping and as soon as it starts hitting the trigger prices mentioned in SL-Orderbook .. these orders get released in pubilc bid ask orderbook. in this case for our ex. trigger execution order will be 3,1,2

for this particular day market opened gap-up, for lot of traders this becomes bullish bias .. with this bias market was in very narrow trading zone giving everyone opportunity to enter .. majority of ppl will keep SL below nearest swing low.



now if majority of orders waiting in same/narrow price range .. all it takes for market to hit 1st few orders to generate cascading effect

as soon as market maker & hft algos see that flood of orders at top ask / market price they pull out / cancel their bid prices and move to lower levels to get better price & b'cuse there is no buy order to fulfil SL orders it become like oil in fire

prices rush down swiftly - for SL-market to fulfil at lowest levels & SL-Limit keeps hanging at high levels ..
for these ppl now panic kicks in and they convert Sl-limit to market and this 2nd push takes prices even lower

so now how to lower our slippage risk.. here in general you can follow two approaches
1. keeping trigger at higher level avoid round prices like 100, 110, so if your swing low if at 102 most ppl keep SL trriger at 101 or 99 to be on safe side ..

take in consideration that how important that swing low is (e.g. double bottom etc) the cascading effect itself will pull prices from 102 to 99 .. so its good to keep SL at 102.10 / 102.25 / 102.35

2. method requires pre planning .. most of the time ppl enter into the trade in in sequence like signal -> confirmation -> order so instead for waiting for confirmation 1st place your SL order on signal (you need to calculate your RR on this price)

this will book your 1st place in SL-order book (seat pe rumal rakh dena)
now on confirmation place your buy order.

for more safety & large qty SL execution you can follow document mentioned in below tweet. https://t.co/mh4xjjDqby

> Trading in large quantities, want to reduce slippages?
>
> A small document on how to reduce slippages.
> Will keep adding points.
>
> Made with help from @TraderLogical
>
> Also inputs by @JigneshTrade ,@pavankulkarni & @QuantKarnage https://t.co/rAVJDnznpL
>
> Any Inputs?
>
> Do Retweet
>
> — Jitendra Jain (@jitendrajain) June 10, 2021